



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 8**

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Mr. Keith McLaughlin, Executive Director
Colorado Water Resources & Power Development Authority
1580 Logan Street, Suite 620
Denver, CO 80203

Dear Mr. McLaughlin:

The U.S. Environmental Protection Agency, Region 8, has conducted an annual review of the Colorado Drinking Water State Revolving Fund (DWSRF or DWRF) for calendar year 2022 (January 1, 2022 through December 31, 2022) in accordance with the EPA's State Revolving Fund (SRF) Annual Review Guidance.

Three separate state agencies have distinct roles in the management of the Colorado DWRF program. The grantee is the Colorado Water Resources and Power Development Authority (Authority), which provides state match and conducts various financial functions for the SRF programs, including working with loan recipients on financial and audit issues and coordinating an annual financial audit of the DWRF program. Responsibilities of the Colorado Department of Public Health and Environment (CDPHE) Water Quality Control Division (WQCD) include primacy duties for the Safe Drinking Water Act, working with communities in completing necessary planning, design, and construction activities associated with each DWRF project, and managing the two percent, four percent, 10 percent, and 15 percent set-asides. Responsibilities of the Colorado Department of Local Affairs (DOLA) include outreach to local communities and conducting financial analyses of potential and existing loan borrowers.

This annual review includes consideration of the legal, managerial, technical, financial, and operational capabilities and performance of the Authority, WQCD and DOLA in administering the DWRF. Activities incorporated into the annual review were an analysis of the 2022 and 2023 IUPs, the Colorado Drinking Water Revolving Fund Biennial Report covering January 1, 2021 to December 31, 2022, data from the Drinking Water National Information System (DWNIMS) and the SRF Data System, files for two projects (Town of Buena Vista and Town of Nucla), four cash draws (listed below), 2022 financial statements, and Colorado's DWRF financial indicators. The EPA conducted an in-person annual review May 9-11, 2023 with an exit meeting on May 11, 2023.



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Four DWSRF Cash Draws

FS998832-22; December 22, 2022; \$2,637,732.67

FS998832-22; November 14, 2022; \$152,133.62

FS998832-22; October 20, 2022; \$586,143.49

FS998832-21; January 21, 2022; \$261,533.19

OBSERVATIONS: The state of Colorado managed its DWRP program during 2022 in accordance with applicable statutes, regulations, and guidance. The project demand remains high in Colorado. The 2023 IUP shows approximately \$3.5 billion in short-listed projects on its projected loans list with \$1.3 billion in lead service line projects and \$578.9 million in emerging contaminants projects. These short-listed projects are priority for BIL funding and have either recently received a loan, applied for a loan, or are projected to start within 12-18 months. There is \$17.0 billion in projects on its overall project priority list (which includes the short-listed amount).

For the year, the Colorado DWRP provided 18 separate funding agreements to 12 municipalities totaling \$103.8 million with a range of effective interest rates from 0 percent to 2.75 percent. Of the 18 agreements, seven were with full principal forgiveness to fund only design and engineering phases and nine went to disadvantaged communities. By leveraging the DWRP, Colorado has been able to fund an additional \$217 million in projects.

In November 2021, the Bipartisan Infrastructure Law (BIL) was signed into law, which appropriated additional federal DWSRF funding for FY22-FY26 through three types of DWSRF infrastructure grants: DWSRF general supplemental, lead service line replacement, and emerging contaminants. In March 2022, EPA issued BIL Implementation Guidance with the following FY22 BIL allotments for Colorado:

DWSRF General Supplemental: \$35,550,000, awarded September 2022

DWSRF Lead Service Line Replacement: \$56,015,000, awarded September 2022

DWSRF Emerging Contaminants: \$14,927,000, awarded September 2022

The FY23 allotments are as follows:

DWSRF General Supplemental: \$36,884,000, application received July 2023

DWSRF Lead Service Line Replacement: \$32,600,000, awaiting application

DWSRF Emerging Contaminants: \$13,384,000, awaiting application

Throughout the five years of BIL Implementation, EPA expects Colorado to:

- Evaluate and revise, as needed, its DWSRF disadvantaged community (DAC) criteria (Colorado revised its DAC criteria in spring 2022),
- Evaluate the DWSRF's priority point system for project ranking commensurate with need,
- Consider technical assistance funding, and
- Engage residents and community stakeholders in disadvantaged communities.

Unliquidated Obligations

In April 2014, EPA issued a ULO policy for the DWSRF with two strategic targets, 1) FY13 and prior year grants would be fully spent by September 30, 2016; and 2) future year grants (FY14 and newer) would be fully spent within two years of award with a one-year extension available for set-aside use. In calendar year 2022, Colorado spent \$19.0 million in DWSRF grant funds, \$10.8 million in loan fund expenses, and \$8.2 million in set-asides. Colorado was awarded their FY22 capitalization grants (both base and BIL), totaling \$112.5 million, in September 2022. The FY23 grants have yet to be awarded. With the addition of the FY22 base and BIL grants, there remained \$115.6 million in unspent federal funds (\$9.1 million from the base capitalization grants and the remainder from the newly awarded BIL grants). The state was meeting the spending targets outlined in the ULO policy prior to the BIL awards, and given project demand, they should have no problem meeting targets again once the BIL projects start construction.

Additional Subsidy and Equivalency

Colorado met additional subsidy funding levels through its FY20 base capitalization grant and FY22 lead service line grant. The state has started making progress toward meeting the additional subsidy for the FY21 base grant (16 percent of the minimum subsidy level is reported), as well as the FY22 BIL general supplemental grant (71 percent of the minimum subsidy level is reported). The state will work toward awarding the required additional subsidy for the FY22 base and BIL emerging contaminant grants this year.

Also, the Colorado DWRF has funded projects to meet the equivalency requirement for the base FY21 grants and prior. For the BIL grants, the equivalency requirement has been fully met for the FY22 lead service line grant. The state has made progress on meeting the requirement for the FY22 BIL general supplemental grant (34 percent of the minimum subsidy level is reported), and the state is still working to identify projects for the emerging contaminant grant.

DWSRF Project Progress

For more traditional measures, the Colorado DWRF is summarized below with the following table, which presents fund use rate and pace of construction at the end of 2022.

Colorado DWSRF Program Summary - December 31, 2022 (\$ millions)				
DWSRF Funds Available for Projects	Assistance Provided	Fund Use Rate	Project Disbursements	Pace of Construction
\$969.9	\$869.6	90%	\$728.9	84%

Colorado DWSRF Set-Aside Summary - December 31, 2022 (cumulative) (\$ millions)			
Set-Aside	Set-Aside Amount	Set-Aside Amount Expended	% of Set-Aside Expended
Administrative	\$21.1	\$16.9	80%
Small System TA	\$8.6	\$7.6	88%
State Program	\$36.0	\$31.5	87%
Local Asst.	\$56.3	\$49.6	88%
TOTALS	\$122.0	\$105.6	86%

The *fund use* rate for the Colorado DWRF in 2022 decreased slightly from 92 to 90 percent. The remaining uncommitted 10 percent equaled \$100.3 million, an increase of \$32.6 million from 2021. This is an expected result with the large influx of grant funds due to the funding of the BIL grant awards late in the calendar year.

The *pace of construction* (disbursements divided by total project amounts) decreased from 92 percent to 84 percent during the year. The state disbursed \$24.6 million in project expenses in 2022. Overall, Colorado DWRF staff manages projects well. For another indicator, the \$24.6 million in construction expenses relative to \$11.0 million in federal cash draws (loan fund and administrative), caused Colorado's cumulative DWRF *Federal Return* to remain constant at 2.16, still a good result.

A key component of strategic SRF fund management is the balancing of cash inflows and outflows. The following ratio shows how efficiently Colorado's DWRF is revolving by examining the program's disbursement rate over a set time and comparing it to the amount of cash on hand. The ratio is calculated by subtracting total project disbursements (\$728.9) from total funds available (\$969.9 million) and comparing this number (\$241.0 million) to the average annual disbursements over the past three years (\$36.5 million). For the Colorado DWRF, this ratio is 6.61 (years), which shows that this program in 2022 was using all funds in 6.61 years. This number drastically increased in 2022 due to the BIL grant awards, which totaled over \$100 million for the year. This is an expected result and once the funds are fully committed and projects ramp up construction, the metric will improve.

Colorado DWRF project milestones accomplishments as of June 30, 2022, as provided from DWNIMS, are as follows (in \$ millions). The percentage of project completions to funds available decreased slightly from 72 percent to 69 percent, still remaining above the national average of 59 percent, and expected with the large influx of BIL funds

June 30, 2022 Data (\$ millions)

- DWRP Funds Available: \$872.9
- Project Assistance: 274 projects at \$775.0
- Construction Starts: 267 at \$742.7
- Project Completions: 234 at \$598.6

Overall, the Colorado DWRP is performing well in getting drinking water projects built to further the goals of SDWA.

Set-Aside Use and DWSRF-PWSS Integration

Colorado routinely takes the full 31 percent of set-asides from its annual DWSRF grant. At the end of 2022, set-aside spending rate was at 86 percent. The state spent \$8.2 million in set-asides in 2022, and there was \$16.4 million remaining at the end of the year. The \$16.4 million was comprised of \$4.2 million remaining in the administrative set-aside, \$1.0 million in small system technical assistance, \$4.5 million remaining in the state program set-aside, and \$6.7 million remaining in the local assistance set-aside. The WQCD continues to use set-aside funds for a wide range of drinking water program and technical assistance activities, including sanitary surveys, capacity development and source water protection activities.

The Colorado DWRP staff interact frequently, and usually on an informal basis, with the PWSS (public water system supervision) program to help ensure DWRP funds are used consistent with the state's drinking water priorities.

Financial Sustainability

Based on information from DWNIMS, the Colorado DWRP's *Net Return* decreased \$0.5 million to \$16.6 million as of June 30, 2022. In FY22, the state collected \$2.3 million in interest payments, \$108 thousand in interest earnings, and paid \$2.9 million in bond interest expense. The *Net Return on Contributed Capital* (contributed capital being the sum of federal outlays for loan fund and deposited state match) decreased from 4.4 percent to 4.1 percent.

Total Net and Net Interest Margin

Total Net measures the extent by which internal growth is generating additional funding for new projects. This is calculated by taking the total cash inflows generated by ongoing loan and investment activity less bond repayments and interest payments. New federal capitalization grants are excluded from this calculation. For FY22, the Colorado DWRP's *Total Net* was \$19.0 million.

Net Interest Margin measures the percentage rate of return the SRF is generating from its Total Assets through loans and investments less bond interest expense. For FY22, the Colorado DWRP's net interest margin was -0.10%, based on an annual net interest amount of -\$0.5 million and an average of total assets of \$497.8 million and \$523.8 million at the beginning and end of FY22, respectively (total assets were reported in the financial statements).

Financial Management and Proportionality

The DWRP shows sound financial health and management. There have been no defaults and all loans are secured by revenues from user charges and/or full faith and credit of the borrowing entities. The net position (including undrawn loan fund grants) as of December 31, 2022 was \$358.3 million, an increase

of five percent over the 2021 net position of \$341.2 million, as reported in the financial statements. All four cash draws listed on page one above were done with a 100 percent federal proportionality ratio; the full state match was disbursed prior to federal draws. Furthermore, the payment requests for the cash draws were for eligible costs and were adequately documented. No costs were questioned, and there were no improper payments.

In April 2023, Forvis, LLP issued audited financial statements on the DWRF for the year ending December 31, 2022. No issues or recommendations were identified with this document.

PRIOR RECOMMENDATIONS: There were no recommendations from last year's review.

NEW RECOMMENDATIONS: There are no new recommendations with this year's annual review.

The Colorado DWSRF assessment has been completed by SRF Coordinator, Jenn Berig, in collaboration with the EPA Region 8 SRF team. You may reach Jenn with any questions at (303) 312-6262 or Berig.Jennifer@epa.gov

Sincerely,

Benjamin Bents
Manager
Technical and Financial Services Branch

cc: Mark Henderson, P.E., Colorado Department of Public Health and Environment
Desiree Santerre, Colorado Department of Local Affairs

DWSRF FINANCIAL INDICATOR WORKSHEET
COLORADO DWSRF PROGRAM: (Cumulative Amounts in \$ Thousands)
2018 - 2022

	Dec. 31 2018	Dec. 31 2019	Dec. 31 2020	Dec. 31 2021	Dec. 31 2022
Colorado DWSRF Project Assistance	\$657,896	\$699,921	\$743,413	\$767,947	\$869,571
Colorado DWSRF Funds Available	710,519	741,712	788,142	835,664	969,934
COLORADO DWSRF Fund Use Rate	93%	94%	94%	92%	90%
DWSRF Funds Available:					
Net Capitalization Grants into Loan Fund	266,701	281,702	296,713	311,710	420,046
Total State Match	60,034	64,423	73,122	77,509	83,833
Net Return *	10,058	14,297	15,864	17,060	16,550
Transfer (to)/from WPCRF	0	0	0	0	0
Net Leveraged Bond Proceeds	276,999	298,286	304,914	315,066	317,468
Net Principal Repayments	97,108	83,387	97,913	114,895	132,613
DWSRF Funds Use for Refunding	(380)	(383)	(383)	(577)	(577)
Colorado DWSRF Funds Available	\$710,519	\$741,712	\$788,142	\$835,664	\$969,934
DWSRF Funds Available w/out Leveraged Bonds:					
Net Capitalization Grants into Loan Fund	266,701	281,702	296,713	311,710	420,046
Total State Match	60,034	64,423	73,122	77,509	83,833
Net Return*	10,058	14,297	15,864	17,060	16,550
Transfer (to)/from WPCRF	0	0	0	0	0
Net Principal Repayments	97,108	83,387	97,913	114,895	132,613
DWSRF Funds Available w/out Leveraged Bonds:	433,901	443,809	483,611	521,174	653,042
DWSRF Project Assistance	\$657,896	\$699,921	\$743,413	\$767,947	\$869,571
DWSRF Funds Available w/out Leveraged Bonds:	433,901	443,809	483,611	521,174	653,042
Add'l DWSRF Projects due to Leveraging	\$223,995	\$256,112	\$259,802	\$246,773	\$216,529
Project Disbursements	\$575,995	\$619,549	\$668,079	\$704,292	\$728,916
DWSRF Project Assistance	657,896	699,921	743,413	767,947	869,571
Pace of Construction	88%	89%	90%	92%	84%
Project Disbursements	\$575,995	\$619,549	\$668,079	\$704,292	\$728,916
Federal Outlays	271,924	281,497	310,864	326,775	337,823
Federal Return	2.12	2.20	2.15	2.16	2.16
Project Disbursements	\$575,995	\$619,549	\$668,079	\$704,292	\$728,916
Colorado DWSRF Funds Available	710,519	741,712	788,142	835,664	969,934
Overall Flow of DWSRF Funds	81%	84%	85%	84%	75%
Undisbursed Project Funds	\$134,525	\$122,164	\$120,063	\$131,372	\$241,018
3-year Average Annual Disbursements	35,761	33,043	38,148	42,766	36,456
Ratio of Undisbursed Funds to Disbursements	3.76	3.70	3.15	3.07	6.61
Set-Aside Expenditures	82,026	86,193	93,054	97,290	105,517
Set-Aside Payments	89,615	96,354	103,098	109,836	122,094
Set-Aside Spending Rate	92%	89%	90%	89%	86%
	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021	June 30, 2022
Interest Payments*	73,628	76,773	79,651	82,367	84,645
Interest Earnings*	64,590	70,534	73,133	75,627	75,735
Interest Expense*	(128,160)	(133,010)	(136,920)	(140,934)	(143,830)
Match Bonds Principal Repaid*	(0)	(0)	(0)	(0)	(0)
Net Return*	\$10,058	\$14,297	\$15,864	\$17,060	\$16,550
Contributed Capital Excluding Subsidy*	318,285	\$331,148	367,987	\$387,678	404,788
Net Return on Contributed Capital*	3.2%	4.3%	4.3%	4.4%	4.1%
Interest Payments	\$3,068	\$3,145	\$2,878	\$2,716	\$2,278
Interest Earnings	3,031	5,944	2,598	2,494	108
Loan Principal Repayments	32,082	26,029	25,348	23,691	27,422
Leveraged Bond Principal Repaid	(18,710)	(12,270)	(9,880)	(10,255)	(7,920)
Bond Interest Expense	(5,139)	(4,850)	(3,910)	(4,014)	(2,896)
Total Net (Annual Amounts)*	\$14,331	\$17,997	\$17,034	\$14,632	\$18,992
Loan Interest	3,068	3,145	2,878	2,716	2,278
Investment Interest	3,031	5,944	2,598	2,494	108
Bond Interest Expense	(5,139)	(4,850)	(3,910)	(4,014)	(2,896)
Annual Net Interest /	\$959	\$4,239	\$1,566	\$1,196	-\$510
(Total Assets Prior Yr. + Total Assets Current)/2*	493,813	500,969	506,791	504,257	510,799
Net Interest Margin*	0.19%	0.85%	0.31%	0.24%	-0.10%

* As of June 30 of each year